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C O N F I D E N T I A L SECTION 01 OF 02 SOFIA 000775

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C O R R E C T E D C O P Y (C L A S S I F I E D B Y A N D R E A S O N L I N E A D D E D)

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TAGS: PGOV ECON PREL BU

SUBJECT: BULGARIA: PM ANGRY AND DEFENSIVE IN FACE OF EU CRITICISM

REF: SOFIA 750

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Classified by: DCM Alex Karagiannis for reasons 1.4 (b) and (d)

¶1. (C) Summary: Prime Minister Stanishev is showing signs of stress from intense domestic political infighting, an economic downturn, negative international press and sustained EU criticism. Uncharacteristically angry and defensive in a December 3 meeting with the Ambassador, he lashed out at EU critics and spoke of turning Bulgaria into a "difficult EU member state -- like Poland." Ambassador urged Stanishev to focus on what still needs to be done in the areas of EU funds management and rule of law. The international criticism will ease only when the Bulgarians can point to concrete reforms and successes. End Summary.

LASHING OUT AT THE COMMISSION

¶2. (C) Ambassador met PM Stanishev December 3 to discuss Bulgarian reaction to the November 25 loss of 220 million euros in EU pre-accession funds (reftel). Stanishev bitterly asserted that the loss of EU money was the decision of one EU bureaucrat, DG for Enlargement Michael Leigh, whom he accused of harboring an anti-Bulgaria bias. Other European experts, he said, had been impressed by all Bulgaria had accomplished in the four months since the EU originally froze USD 765 million in pre-accession funds due to fraud and mismanagement. Stanishev said these officials, who are in Bulgaria on an almost constant basis, complemented Sofia on the creation of a Deputy Prime Minister position in charge of EU Funds, increases in personnel, and rapid legal and structural reforms in the areas of funds management. In addition, there were new laws in parliament on conflict of interest and party financing. Therefore, DG Enlargement's decision to suspend the PHARE pre-accession funds came a surprise.

¶3. (C) Stanishev complained about the EU's approach to Bulgaria, saying it was in violation of the principles of solidarity and transparency. He noted that some EU countries (Hungary in particular) had recently received direct financial support from the European Central Bank after "mismanaging their finances." Meanwhile, Bulgaria has engaged in sound fiscal policies, racked up surpluses and reserves, and maintained stricter control over its banking sector. The decision to "save for a rainy day" was not politically easy or popular, and many fellow EU member states took the easy way out by spending beyond their means. The Commission rewards these countries with "bonus EU funding" while denying Sofia access to long-promised pre-accession funds, he stated.

¶4. (C) On violations of transparency, Stanishev accused the Commission of intentionally leaking scathing monitoring reports on Bulgaria in July. "We read these reports in the newspapers," he said. And he complained that Brussels is always moving the bar. "Michael Leigh always says "What you've done is good, but now you need to do more." Further, Stanishev complained that the Commission and the U.S. Embassy lobbied hard for the closure of duty free shops in Bulgaria (which were finally closed in July 2008), only to learn that the European Parliament (as opposed to the Commission) in November voted in favor of duty free shops on land borders (NB: Euro MP's from Bulgaria's ruling coalition constituted the margin of victory). Stanishev also asserted that in a July letter to EC President Barroso, he offered "complete openness to EU experts." He said Barroso was unwilling to take Bulgarian up on its offer because it would imply the Commission was "co-responsible" for results.

¶5. (C) The Commission's actions would turn Bulgaria into "a difficult member state -- like Poland," Stanishev said. He noted that recent opinion polls showed a drop in up-to-now overwhelming support for the EU. The anti-EU, anti-West nationalist party Ataka is getting stronger. Corrupt business blocks are on the rise politically (notably energy oligarch Hristo Kovachki's Leader Party). The Commission must realize, he said, that Bulgaria is in a pre-election season and the EU's actions will have ramifications. At this critical time, "our European friends must be cautious."

INTERNATIONAL PERCEPTIONS

¶6. (C) Stanishev saved special criticism for the international press' treatment of Bulgaria of late. A recent series in the International Herald Tribune profiled Bulgaria as "The Most Corrupt Country in the EU." Stanishev said this series did not meet journalistic standards and was based on "80 percent outdated information." He claimed there was "clear evidence" that some of the articles had been "planted"

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by political rivals, (notably the GERB party of Sofia Mayor
Boyko Borissov.)

FOCUS ON THE FACTS

¶7. (C) Ambassador reminded that Bulgaria's membership came with conditions. The question now is to what extent Bulgaria is meeting those conditions. Talking to Brussels about double standards will fall on deaf ears. Bulgaria must be able to point to concrete facts. For example, she said, the government must take charge of the debate over the future of the national auditing office, the entity that will oversee the more than 13 billion dollars in EU structural funds Bulgaria is to receive by 2013. Ambassador stressed the agency had to be independent and free from political pressure. It must use independent auditors. Stanishev agreed. In times of shrinking growth and FDI, Ambassador continued, the Government must show specific reforms to increase investor confidence as well as EU confidence. New, transparent public procurement procedures would be a step in the right direction. By pointing to tangible reforms such as these, Bulgaria could change the dynamic with the Commission and international media.

Karagiannis